



A MONTHLY ELECTRONIC NEWSLETTER TO THE 41st ASSEMBLY DISTRICT
(Including Agoura Hills, Calabasas, Encino, Malibu, Hidden Hills, Lake Sherwood, Oak Park, Pacific Palisades, Port Hueneme, South Oxnard, Santa Monica, Tarzana, Topanga, Westlake Village, and Woodland Hills.)

AUGUST 2003 SPECIAL BUDGET ISSUE

2003-04 State Budget Passes

After a record-setting 29-1/2 hour continuous session of the California State Assembly, and after months of partisan gridlock and unhelpful “lines in the sand,” on Tuesday, July 29, the Assembly passed the state budget on a bipartisan vote of 56-22. Session began around noon on Monday, and when by midnight we were still nine votes short of passage, Speaker Herb Wesson did what has only been done once before in a budget session. He locked the Assembly Chamber doors. No one was leaving until the state had a budget. It was a daring move on the Speaker’s part, but I was surprised to find one of my Republican colleagues quoted in the press as saying that even with the state in near fiscal collapse, until the lock-down “it was really the first time that [he] felt there was a sense of urgency.” It was also very disappointing to find Republicans, who had been lecturing about “more cuts” for months, suddenly trying to broker pet projects for their districts in exchange for their vote.

This is not the budget that the Assembly Democrats proposed and that I supported. That proposal was a long-term balanced solution combining cuts with additional revenue, including from a temporary tax to pay off a five-year \$10.7 billion deficit bond. In spite of the magnitude of the budget shortfall -- \$38 billion -- the Republican caucus was steadfast that they would not support any tax of any kind.

With the state approaching meltdown because of the continuing gridlock, the Assembly Democrats agreed to a budget that I think relies on too much borrowing. It’s not good fiscal policy, but California needed a budget to keep our schools, our health care system, and local police and fire services running. As Speaker Wesson said when he called for the final budget vote, “there is a time for partisanship and a time to govern. Today, partisan politics threaten to tear this state apart. The people need us to put that aside and do what is right for them and for their future.”

HOW DID THE STATE GET INTO SUCH A DEEP DEFICIT?

The reasons for the budget gap were many and varied.

- **Stock Market** – 48% of the state’s general fund comes from personal income taxes, which are a relatively unstable source of revenue that is subject to wild swings of the stock market. The collapse of the dot-com economy caused many individuals and corporations to write-off their losses, which resulted in reduced capital gains and personal income tax revenue to the state.
- **Investments in Education** – The single largest expenditure of increased revenue by the state from the late 1990s to the present is to our schools and colleges. California is finally moving forward from our low in the early 1990s of 49th in the country up to 29th today in terms of the amounts spent per pupil. Now is not the time to go backward. A well-educated workforce is vital to our state’s economy.
- **Tax Credits and VLF Rebates** – These cost the state close to \$5 billion every year, and were added during the boom times – ex., manufacturing tax credits amounting to \$400 million annually. The legislature is holding hearings to review each tax credit to make sure that they continue to be wise investments. (Did you know that it takes a simple majority vote to add a tax credit, but a 2/3 vote to rescind them or any line item?)

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- **Increases in Health Care and Human Services** – Six million Californians are still uninsured, with the vast majority children or full-time working adults. The largest increase in expenditures was to enroll thousands of children in the Healthy Families program. This Federal program matches Federal to state dollars. So far it has not been cut. Essential support services for seniors, children and the disabled will be hard to cut. In addition, legislative hearings will be held to look at allegations of Medi-Cal fraud.

WHAT ARE SOME MAJOR ELEMENTS OF THE 2003-04 BUDGET?

And to those who suggest that the state just needed to “cut the fat” in the bureaucracy, consider the following: If we fired every state employee, meaning empty every state prison and close every youth authority; shut down every UC campus, CSU campus, and state facility for the mentally ill and developmentally disabled; fired every CHP officer; shut down Caltrans, stopping all state highway and freeway maintenance and repair, etc., we would save only about \$16 billion of the total \$38 billion deficit.

Local Government:

- Vehicle license fee money belongs to cities and counties for police, fire, roads, parks, etc. The state lowered the VLF fee for drivers a few years ago during the dot-com boom, and was making up the difference to local government. The fee remains at 2%, but the state subsidy stops immediately. The VLF will be restored to prior levels in October. Local government will lose the difference for two months.
- There will be a one-time one-year \$135 million shift of redevelopment funds for fiscal 2003-04 (reduced from the \$250 million in the Senate budget), but flexibility will be given to local government to exchange or substitute payments from other sources.
- In order to satisfy Wall Street’s demand for a dedicated revenue stream to pay off the \$10.7 billion deficit bond, there will be a “triple flip” of payments to local government. One-half cent of sales tax revenue will be taken away but replaced with an equal amount of property taxes. This keeps local government whole. The state uses the “new” half-cent sale tax revenue to pay off the bond. The Prop. 98 guarantees insure that schools are backfilled, so that they, too, are made whole. This complicated shifting of funds was not my preference. I believe that the Assembly Democrat proposal to increase the sales tax by ½ cent for five years to pay off the deficit bonds made more sense and would not have raised so many concerns for local government about their need for certainty in their own budget plans.

Education

- There are no additional cuts to K-12 beyond those made earlier this year.
- Community college tuition rates will increase from \$11 to \$18 per unit.
- An additional \$18 million cut to the UC system and \$15 million cut to the state colleges. This amounts to a \$397 million reduction to UC schools and \$349.8 reduction to state colleges this year.
- Proposition 98 is not suspended, and the budget does not shift Calworks Stage 2 childcare.
- \$50 million for equalization was added by the Assembly to the school district budgets. This provides additional money for the Oxnard, Las Virgenes, Hueneme, Oak Park, and L.A. school districts.

Other

- Furloughs some prisoners convicted of non-violent drug offenses to less costly drug treatment programs if they are within four months of their release date.
- Restores \$40 million to preserve farmland under the Williamson Act.
- Requires a 5% rate reduction for Medi-Cal providers (physicians, pharmacies, etc.)
- Continues reimbursement of medical optional benefits for the poor, elderly and disabled.
- Does not extend the \$400 million manufacturing tax credit.
- Retains funding for Calworks childcare program.
- Maintains the existing Teachers Tax Credit.
- Reduces CHP pay by agreement with them.

State agencies will be cutting their budgets and thousands of employees. Parents will be paying higher tuition for the children’s education at our CSU and UC schools. Many programs, like the Arts Council which was cut from \$20 million to \$1 million were drastically slashed. Additional budget trailer bills will be voted on after session reconvenes on August 18. The Governor still has the ability to “blue pencil” any item.

CONSTITUTIONAL REQUIREMENT

A major obstacle throughout this process has continued to be the requirement that in California, like with only two other states, 2/3 of the legislature must approve a budget. Even the Federal government requires only a simple majority to pass their budget. The 2/3 requirement has meant that a majority of the state legislature can work together in good faith, agree on an on-time fiscally-responsible budget, and a handful of minority voices can still obstruct and block passage virtually indefinitely.

Despite my personal objection to many of the cuts like reimbursements to health care providers; reductions to state parks, higher education, the film commission; the "triple flip" of local government funding, etc., delaying the passage of the budget further was simply not an option. I appreciate the many calls, letters and e-mails offering suggestions and comments during the budget deliberations.

In the months ahead, subcommittees made up of legislators, as well as Governor Davis, will continue to work on such issues as structural budget reform, categorical block grants to schools for K-12, reforming a very broken Workers Compensation system, and on other cost-saving measures.

Assemblymember Pavley's Committee Assignments

Appropriations Committee
Arts, Entertainment, Sports, Tourism, and Internet Media Committee
Budget Committee
Education Committee
Transportation Committee
Water, Parks and Wildlife Committee
Select Committee on Title IX
Select Committee on California Ports
Chair, Select Committee on Air and Water Quality
Chair, Budget Subcommittee #3 on Resources
Legislative Advisory Committee – Wildlife Conservation Board
Legislative Advisory Committee – California Coastal Conservancy
Santa Monica Mountains Conservancy Advisory Board

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